

# THE ECONOMIC CONSEQUENCES OF THE 9/11 TERRORIST ATTACK IN THE USA

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The aim of the paper is to present the major costs that the US economy has suffered as a result of the 9/11 attacks. These costs include: loss of lives and property, losses in market capitalization on US exchange. The paper further shows how terrorism affects the budgetary decisions of US government (in broader sense the attack led to the attack on Afghanistan and Iraq), and also the adjustment costs for industry and economy, that have been taken to cover terrorism risk. The results suggest that the economic consequences of terrorist incidents are short term. The change in overall figures was not massive, as the demand and investment simply changed the direction from some sectors to the other.

After the attacks of September 11<sup>th</sup> 2001, few would disagree that terrorism is among the greatest of threats to the current security environment. Though the phenomenon of terrorism is not new and has been known to human history for hundreds of years, its definitions have varied over time and the same event could be described as an act of terror or a criminal incident.<sup>1</sup> Terrorism takes its origins from multiple factors (economic, religious, political, sociological) and also its consequences are complex and influence multiple fields of our lives. Research into various aspects of terrorism has been prompted by the events of 9/11, and many analyses and studies have been performed since then. Terrorism is a complex issue and deserves the attention of scientists and governmental agencies. It is no longer a phenomenon that concerns a minority, a single nation or territory, but it is a global concern and a proper amount of attention needs to be attributed to it.

The aim of this paper is to describe the economic consequences of the terrorist attacks of September 11<sup>th</sup>, 2001, in the United States, often referred to as the 9/11 attack.

The economic costs of the attack on the US economy can be described by different categories, inter alia by the nature of the consequences (direct or indirect), by the time period in which they can be measured, etc. Undoubtedly the easiest to identify and measure are the immediate costs of the attack, whereas the lasting effects on some branches of industry and business will be difficult to estimate.

In my work I have broken the 9/11 impact on the to US economy into several fields that focus on the following issues:

1. Immediate effects of the attack.
2. Macroeconomic and budgetary resources.

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<sup>1</sup> B. Hoffman in a "Inside Terrorism" draws attention to the fact that the term 'terrorism' was used massively during the French revolution and in its first period had positive connotations, while on the other hand in the 1930s the word 'terrorism' was used to describe actions taken by the government against its citizens.

3. US stock market.
4. Consumer spending and reduced travel.
5. Foreign Direct Investment in the US.

## Immediate Effects of the Attack

The immediate effects of the attack on the World Trade Center and Pentagon firstly cover the passengers and crew of the hijacked planes, and those who died in the attacked buildings, the death toll reached 2973.<sup>2</sup> This is a high number of lost lives and it has not happened before<sup>3</sup> in history that so many people died simultaneously<sup>4</sup> in a terrorist attack. Immediate costs of the attack start with \$34 billion in insured losses (which partly covers the \$21.6 billion for buildings and infrastructure), \$576 million for rebuilding the Pentagon, \$11 billion for rescue, clean-up and related costs and \$7 billion for official victim compensation.<sup>5</sup> Numerous businesses were closed, Manhattan lost 13 million square feet of office space, and 146,000 jobs and \$8, 5 billion in wages.<sup>6</sup> The loss of the expected earnings of those who died in the WTC is estimated at \$8.7 billion dollars.<sup>7</sup> The property damage is, however, smaller than that caused by hurricane Andrew in 1992 and the earthquake in California in 1994.<sup>8</sup>

Looking at the figures above, one can draw the conclusion that it was New York that was hit the most severely as a result of the 9/11 attack.

The US stock markets halted for four business days and stocks fell immediately in the re-opening days of the stock market, with the Dow Jones falling 684.81 points on re-opening day.<sup>9</sup>

Less than a week following the attacks the airline industry (already facing economic difficulties before the attacks) began laying off thousands of employees to avoid bankruptcy. The most spectacular redundancies were witnessed in Boeing, maker of the jumbo jets, that hit the World Trade Center. Boeing, reacting to the attacks, fired

<sup>2</sup> D.K. Nanto, "9/11 Terrorism: Global Economic Costs." *CSR report* RS21937: p. 2.

<sup>3</sup> Nevertheless, past terrorist attacks were also responsible for many victims: major terrorist campaigns date back to the Jewish Zealots' struggle against the Roman Empire from 48 AD to 70 AD; the Hindu Thugs' attacks against innocent travelers in India from 600 AD to 1836 AD (it is estimated that the Thugs may have murdered over eight hundred people a year during their twelve-century existence) making them twice as deadly on an annual basis as the modern era of terrorism (1968–2006); and the Assassins' actions against the Christian crusaders in the Middle East from 1090 AD to 1956 AD (Hoffman 2006: 82–83).

<sup>4</sup> Apart from catastrophic natural disasters that have since then been used to predict the costs of potential terrorist attacks.

<sup>5</sup> D.K. Nanto, *op.cit.*, pp. 2–3.

<sup>6</sup> W.C. Thompson, Jr., "One Year Later The Physical Impact of 9/11 on New York City," New York, 4 September 2002; available from <<http://www.comptroller.nyc.gov/bureaus/bud/reports/impact-9-11-yearlater.pdf>>. 18.

<sup>7</sup> *Ibidem*, p. 2.

<sup>8</sup> G. Mankinen, "The Economic Effect of 9/11: A Retrospective Assessment." Coordinator; *CSR report* RL31617, <http://www.fas.org/irp/crs/RL31617.pdf>. 37.

<sup>9</sup> O. Jackson, "The impact of the 9/11 Terrorist Attacks on the US Economy." <http://www.journalof911studies.com/volume/2008/OliviaJackson911andUS-Economy.pdf>. 2.

30,000 employees.<sup>10</sup> To sum up the US airline sector lost 20% of its value in only 3 months following the attack.<sup>11</sup>

The direct costs of the 9/11 attack are fairly easy to assess and leave no place for uncertainty in its assessment. It has to be underlined, however, that though these figures are vast, the economic impact of the attacks was smaller than initially feared. Effective management of crisis and quick response of the US Government, Federal Reserve and the Administration of Congress to restore the confidence and maintain liquidity helped to halt the recession.<sup>12</sup>

## The Impact on Macroeconomic and Budgetary Resources

When analyzing the impact of the 9/11 attack on the US economy we mustn't forget about the conditions of American economy prior to the attack. It was in March of 2001 that the first signs of the recession became visible: the rate of unemployment grew, while production and consumer investments fell. The American government devised a strategy to stimulate the economy. Hence, when analyzing the state of the American economy after 9/11 we need to take these signs into consideration.

The numerous data that has been collected since 9/11 indicate that the event did not have a vast negative impact on the US economy.<sup>13</sup> This mirrors other catastrophic events in US history, such as the two World Wars and the period of the Vietnam War. In these periods growth trends were visible, which supports the thesis of the economic resilience of the US economy in the time of crises. As Olivia Jackson rightly points out, "This is not to say that terrorism and wars drive economic growth alone; instead, this approach is employed to highlight the fact that, to an extent, a correlation exists."<sup>14</sup>

The best indicator of the performance of the economy is the GDP. The forecasts for the US GDP at the beginning of 2001 were not very encouraging. Prior to 9/11 the estimated GDP for 2001 was 1.6% and 3% for 2002.<sup>15</sup> The actual GDP post 9/11 turned out to be 1% for 2001 and 2% for 2002. Of course, the decline in the GDP cannot be ascribed to 9/11 attack only.

It has been calculated that the direct impact of the 9/11 attack resulted in a loss 0.05% in the productive assets of the American economy.<sup>16</sup>

<sup>10</sup> [http://www.boeing.com/news/release/2001q3/nr\\_010918z.html](http://www.boeing.com/news/release/2001q3/nr_010918z.html).

<sup>11</sup> "The Global Economy After September 11," *World Economic Outlook* December 2001, 25 March 2009. <http://www.imf.org/external/pubs/ft/weo/2001/03/pdf/chapter2.pdf>. 16.

<sup>12</sup> Congress enacted a \$40 billion emergency package within days following the attacks, and shortly was preparing to provide an additional \$20 billion in aid to the ailing airline industry and \$20 billion to the Pentagon. The Federal Reserve injected several hundred million dollars into the economy, and cut interest rates an additional three times in the wake of the attacks.

<sup>13</sup> Of course this does not apply to the economy of New York, which was hit the most by the attack, as described briefly above.

<sup>14</sup> O. Jackson, "The impact of the 9/11 Terrorist Attacks on the US Economy," <http://www.journalof911studies.com/volume/2008/OliviaJackson911andUS-Economy.pdf>. 2.

<sup>15</sup> "Economic forces reshape top players," ICIS Chemical Business, <http://www.icis.com/Articles/2001/10/15/149004/economic-forces-reshape-top-players.html>.

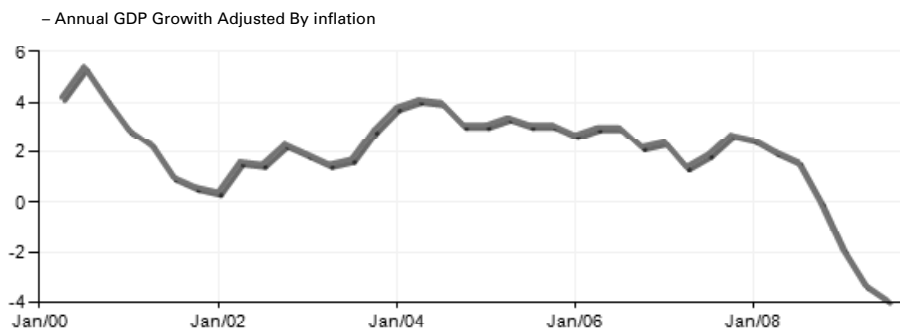
<sup>16</sup> G. Andreopoulos, A. Panayides, "The Macroeconomic Effects of 9/11," [www.cluteinstitute-onlinejournalism.com/PDFs/2004109.pdf](http://www.cluteinstitute-onlinejournalism.com/PDFs/2004109.pdf). 2.

Table 1. US Economic Growth Rates, selection of data from 1939–2005  
(Nominal-Dollar and “Real” Gross Domestic Product)

Year	GDP in Billions of Nominal Dollars	% Change	GDP in Billions of Real 2000 Dollars	% Change
1939	92.2	7%	950.7	7.8%
1940	101.4	4.10%	1,034.0	9%
1941	126.7	7.25%	1,211.1	17%
1942	161.9	28%	1,435.0	19%
1943	198.6	23%	1,670.9	16%
1944	219.8	8.11%	1,806.0	58%
1945	223.0	2%	1,786.3	–1%
1946	222.3	0%	1,589.4	–11%
1963	617.7	5%	2,834	0.4%
1964	663.6	7%	2,998.0	6.6%
1973	1,382.7	12%	4,341.0	5.6%
1974	1,500.0	0.8%	4,319.6	–1%
2000	9,817.0	6%	9,817.0	0.4%
2001	10,128.0	0.3%	9,890.0	7.1%
2002	10,469.0	6.3%	10,048.0	8.2%
2003	10,960.0	5%	10,301.0	0.3%
2004	11,712.0	5.7%	10,675.0	8.4%
2005	12,455.0	8.6%	11,003.0	4.3%

Source: US Department of Commerce, Bureau of Economic Analysis

Fig. 1. United States GDP Growth Rate



Source: Bureau of Economic Analysis

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When presenting the influence of the 9/11 attack on fiscal policy we need to analyze two military actions launched by the American government as a result of the “War on Terror” strategy declared by President Bush on the day following the attack.<sup>17</sup>

<sup>17</sup> B. Woodward, “Bush at War,” Pocket Bodes, 2003: 45.

The launch of military actions in Afghanistan and Iraq was bound to have significant impact on government expenditures. The figures in table II below show how much money was spent on the military campaigns in the years 1998–2005. The increase in spending on military action was also accompanied by a rise in expenditures on the security and protection of American borders. For example the spending on homeland security increased from \$56 billion in 2001 to \$99.5 billion in 2005.<sup>18</sup>

Including the FY2004 Supplemental Request, Defense received \$51.7 billion for Operation Enduring Freedom in Afghanistan, \$130 million in International Assistance programs in other countries to combat terrorism and \$100.1 billion for Operation Iraqi Freedom.<sup>19</sup>

On February 14<sup>th</sup>, 2005, an \$81.9 billion supplemental request for FY2005 (subsequently amended to total \$82.04 billion) was granted by President Bush.<sup>20</sup> Its aim was to provide funds for ongoing military operations in Iraq and Afghanistan, the “global war on terror” and reconstruction in Afghanistan.

The costs of the “War on terror” strategy needed extra funds, as the American economy was not able to bear the burden of war expenditures. The resources could be obtained by a raise in taxes or through increased deficit. The American government chose the latter way, which is noticeable when refining the figures in Table III. When analyzing the costs of the “War on terror” one needs to mention the calculations made by Joseph Stiglitz in his book “The Three Trillion Dollar War.” Together with Linda Bilmes, he estimates that the bill for the Iraq war is likely to exceed \$3 trillion<sup>21</sup> and the cost relates only to the United States and ignores costs to the rest of the world, or to Iraq. The authors argue that “the long-term burden of paying for the conflicts will curtail the country’s ability to tackle other urgent problems (...) The United States will be paying the price of Iraq for decades to come. The price tag will be all the greater because we tried to ignore the laws of economics -- and the cost will grow the longer we remain.”<sup>22</sup> It is a strong argument proving the thesis that the costs of “the war on terror” are hard to measure, consist of multiple expenditures and above all are likely to grow. When performing calculations one needs to bear in mind that the costs to the society and economy are not only upfront but also hidden, visible after some period of time.

<sup>18</sup> B. Hobjin, E. Sager, “What has Homeland Security Cost? An assessment: 2001–2005,” [www.newyorkfed.org/research/current\\_issues/ci13-2.pdf](http://www.newyorkfed.org/research/current_issues/ci13-2.pdf).2.

<sup>19</sup> “2003 report to congress on combating terrorism,” [http://www.whitehouse.gov/omb/inforeg/2003\\_combat\\_terr.pdf](http://www.whitehouse.gov/omb/inforeg/2003_combat_terr.pdf).21.

<sup>20</sup> CRS Report for Congress, “FY2005 Supplemental Appropriations for Iraq and Afghanistan, Tsunami Relief, and Other Activities,” <http://www.fas.org/sgp/crs/misc/RL32783.pdf>. 2.

<sup>21</sup> J. Stiglitz and L. Bilmes, “The Three Trillion Dollar War,” 30 September 2009, [http://www.timesonline.co.uk/tol/comment/columnists/guest\\_contributors/article3419840.ece](http://www.timesonline.co.uk/tol/comment/columnists/guest_contributors/article3419840.ece).

<sup>22</sup> J. Stiglitz and L. Bilmes, “The Iraq War Will Cost Us \$3 Trillion, and Much More,” 30 September 2009, [http://www.washingtonpost.com/wpdyn/content/article/2008/03/07/AR2008030702846\\_pf.html](http://www.washingtonpost.com/wpdyn/content/article/2008/03/07/AR2008030702846_pf.html).

Table 2. U.S. Military Expenditures, 1998–2005 (In Millions of Dollars)

Year	Military Expenditure	Percent Change
1998	274,278	−0.7%
1999	280,969	2.4%
2000	301,697	7.3%
2001	312,743	3.7%
2002	356,720	14.0%
2003	415,223	16.4%
2004	464,676	11.9%
2005	504,638	8.6%
2006	546,018	8.2%

Source: The Stockholm International Peace Research Institute, Military Expenditure Database

Table 3. Government Current Receipts and Expenditures, 2000–2006  
(In Billions of Dollars)

	2000	2001	2002	2003	2004	2005	2006
Total Receipts	3,161.6	3,148.8	2,991.5	3,063.7	3,284.5	3,619.5	3,967.5
Total Expenditures	3,002.6	3,188.2	3,388.2	3,593.4	3,793.2	4,066.0	4,312.3
Net Lending /Borrowing	159.0	−39.3	−396.7	−529.7	−508.7	−446.5	−344.8

Source: US Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts Table

One of the factors influencing the performance of the economy is the price of oil. In the past one could notice that the rise in the prices of oil had a serious negative effect on the growth of the GDP and on inflation (as experienced, for example, in 1973–1974 and 1989–1990). Luckily, this was not the case in 2001. The changes in the prices of oil depend on multiple factors and the potential rise in the oil prices cannot be attributed to the consequences of the terrorist attack or the “war on terror.”

However, some changes in the prices of oil can be ascribed directly to the attack. Immediately following the attack the Nymex (the New York Mercantile Exchange) was closed. The prices quoted for transactions on the Nymex are the basis for prices that people pay for various commodities, inter alia the oil prices throughout the world. Therefore, the closure of the exchange left the market participants in a difficult position. The oil industry was massively affected by the temporary incapability to use data

from Nymex (it resumed its activity in about a week).<sup>23</sup> Fortunately, the quoting of prices was shifted to the spot market.

In fact, the September 2001 witnessed a fall in crude oil prices. The price per barrel was \$23.73, which was a drop from \$24.44 in August. The rest of 2001 witnessed a fall in prices, as the demand for fuel for the airline industry diminished, while simultaneously the demand for oil was not high, as the winter of 2001/02 was mild.<sup>24</sup>

These findings might be surprising, as one might expect that the effects of a terrorist attack of such character and scale as the events of 9/11, are bound to cause rapid growth in oil prices. It seems that in the case of the 9/11 attack the “fear factor” in world oil markets was short-termed. Nevertheless, the terrorist attack of September 11th raised important questions about what may lie ahead for the supply-and-demand factors in setting oil prices and what it could mean for the US. economy.<sup>25</sup>

## The Impact on the US Stock Market

As already mentioned, the US stock market was closed for 4 days after the 9/11 attack. At first glance one could expect that the incident would have a detrimental effect on the stock market. Fortunately the American stock market has shown extraordinary resilience to 9/11 attack, just as it did in the past (for example the 1929 Wall Street bombings). The analysis of historical impact of financial crises proves that, after a brief period of time, calm returns and the markets return to their performance prior to the attack.<sup>26</sup> It has been argued that in the case of strenuous situations, it is best for the stock exchange to be open and to allow the market to correct itself.<sup>27</sup>

Several studies examining the influence of terrorist incidents on US markets have been performed.<sup>28</sup> These confirm that the markets react on the date when the attack takes place but then they quickly recover. In fact, US markets recovered much more quickly than other major markets, despite the fact that the direct attack occurred in the United States. The quickest recovery occurred in Tokyo's stock exchange, taking only six days to recover, while the US stock market recovered after 13 days. Other stock markets took anywhere from 22 days (London) to 107 days (Norway) to become calm following the 9/11 attack.<sup>29</sup>

Nevertheless, the short-term impact of the attack was very troublesome for investors. The damage to the communication system of the Bank of New York (IMF, 2001b) (the world's

<sup>23</sup> Report for Congress, “The Economic Effects of 9/11: A Retrospective Assessment,” <http://www.fas.org/irp/crs/RL31617.pdf>. 21.

<sup>24</sup> Ibidem, p. 21.

<sup>25</sup> P. Blustein, Internet; Accessed 30 September 2009, <http://www.washingtonpost.com/wp-dyn/articles/A7943-2004Jun1.html>.

<sup>26</sup> B. Taylor, “The Historical Impact of Crises on Financial Markets,” <http://www.tocqueville.com/article/show/102>.

<sup>27</sup> O. Jackson, op.cit., p. 5.

<sup>28</sup> G.A. Karolyi and R. Martell, “Terrorism and the stock market,” November 2005, <http://www.cob.ohio-state.edu/fin/dice/papers/2005/2005-19.pdf>. Their findings show a statistically significant negative stock price reaction of -0.83% on September 11<sup>th</sup>, 2001, corresponding to an average loss of \$401 million in firm capitalization.

<sup>29</sup> R.B. Johnson and O.M. Nedelescu, “The Impact of Terrorism on Financial Markets,” *International Monetary Fund*, Working Paper WP/05/60 (March 2005) 8, <http://www.internationalmonetaryfund.com/external/pubs/ft/wp/2005/wp0560.pdf>.

largest custodian and settlement bank) and also the J.P. Morgan (the clearing bank for government securities) resulted in serious disruptions in trading. Finally, many lives were lost in the WTC towers and in consequence many businesses were disabled: the repo market, federal fund brokers, and ATM networks.<sup>30</sup>

Exchange rate expectations were affected by the 9/11 attack, but as in case of Stock exchanges, the influence was visible only in the first week after the attack. The dollar lost 3 to 4 per cent of its value against the yen and euro, but quickly recovered in mid September to the levels prior to the attack.<sup>31</sup>

## Consumer Spending and Reduced Travel

Consumer confidence is the degree of optimism that consumers feel about the overall state of the economy and is an indicator of a positive or negative outlook on the ability to find and retain jobs.<sup>32</sup> If consumer confidence is high, consumers are making more purchases, and aiding economic expansion, and vice versa, lower consumer confidence causes a contraction of the economy.

An event of such a scale as the 9/11 attack is bound to change the assessment of economic risks, by both consumers and businesses. It was no surprise that US consumption fell in the aftermath of the attack. In the first months following the attack, the citizens were less eager to attend cultural events (for example attendance in cinemas fell, which resulted in losses to the entertainment business). However, it has to be underlined that the mechanism through which a change of confidence affects the macroeconomic situation is not easy to assess, as confidence is not an action but rather a feeling, and hence it is difficult to measure.<sup>33</sup> Nevertheless, attempts to measure the consumer confidence are made. According to a survey performed by the Bureau of Economic Analysis, personal consumption expenditure fell in 2001 against 2000. On the other hand, personal and disposable income rose. Trends in consumer consumption and savings were changing from year to year and hence it is difficult to track the link between the 9/11 attack and consumer confidence.<sup>34</sup>

The above chart presents the short term fall of consumer confidence after 9/11 attack. The decline in consumer confidence was quickly stopped and the reverse growth trend started in mid 2002. The analysis of further trends of consumer confidence shows the volatility of the factor and proves that the highest drop in consumer confidence in the last decade was seen at the end of 2008 (which unarguably is attributable to the world economic crises and not terrorist incidents).

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<sup>30</sup> J.M. Lacker, "Payment System Disruptions and the Federal Reserve Following September 11, 2001," *Journal of Monetary Economics*, 51(5), 2004.

<sup>31</sup> "The Global Economy After September 11," op.cit., p. 28.

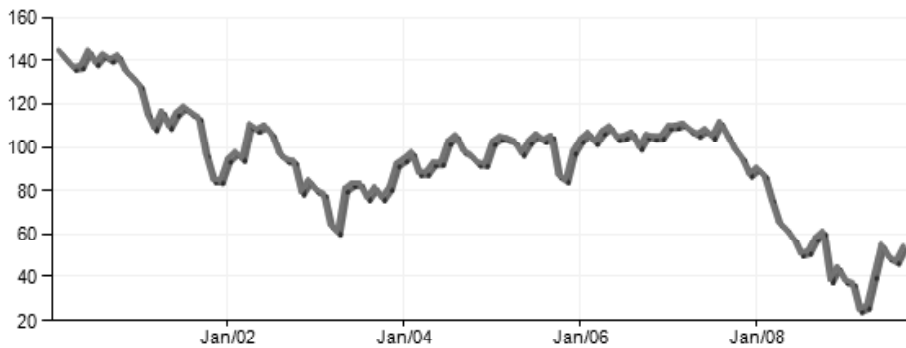
<sup>32</sup> <http://www.tradingeconomics.com/Economics/Consumer-Confidence.aspx?Symbol=USD>.

<sup>33</sup> "The Global Economy After September 11," op.cit., p. 21.

<sup>34</sup> Ibidem, p. 24.



Fig. 2. United States Consumer Confidence



Source: Conference Bureau

www.tradingeconomics.com

Surprisingly, the airline business and insurance companies benefited from the attack in the medium and long-term. The benefits were possible due to the government assistance. Immediately after the attack on September 22nd, 2001 the Air Transportation Safety and System Stabilization Act was issued, which provided the business with transportation relief. The help was desperately needed, as the airline industry was losing \$250 to \$300 million dollars a day.<sup>35</sup> The Stabilization Act provided \$5 billion in direct aid to the airlines, and additionally \$10 billion in indirect aid was granted, in the form of guaranteed loans.<sup>36</sup>

Another field of research I would like to concentrate on is travel and tourism. The 9/11 attack was a massive blow for the insurance industry. The insured losses covered \$34 billion.<sup>37</sup> In light of the scale of the losses help from the government was essential. It was needed, however, not to cover the losses themselves (as the industry as a whole was able to absorb them), but to spread the risk of potential attacks. The industry was not unwilling to cover unlimited losses caused by the terrorist incidents, and the terrorist insurance virtually disappeared.

The insurance business was hence supported with TRIA: the Terrorism Risk Insurance Act (November 2002). The scope of this paper was to divide the risk of potential terrorist incident between insurance companies and the government. Initially it was supposed to last for 3 years, but was extended twice with the expiration date on the last day of 2014. As Olivia Jackson points out "the bad news was essentially good news for the insurance industry,"<sup>38</sup> as overall 90% of the listed companies experienced an increase in their earning per share in the 3 years following the attack.

Apart from the troubles in the airline industry other businesses such as travel and tourism were almost massively hit by the attack. Some of the major US cities that have

<sup>35</sup> M.A. Curci, "Transnational Terrorism's Affect on the U.S. Economy," <http://www.dtic.mil/cgi-bin/GetTRDoc?AD=ADA424217&Location=U2&doc=GetTRDoc.pdf>. 10 January 2009, p. 4.

<sup>36</sup> G. Mankinen, op.cit., p. 35.

<sup>37</sup> D.K. Nanto, op.cit., p. 2.

<sup>38</sup> O. Jackson, op.cit., p. 8.

a large part of its business focused on entertainment and tourism, such as like Los Angeles, and Las Vegas were facing difficulties as well.<sup>39</sup>

Cruise bookings in the US fell by 40% and cancellations approached 25% compared with 2000. It was also estimated that the US exports of travel and tourist fell by 12% in 2001 and 4% in 2002.<sup>40</sup>

These trends were short-term and though, since the 9/11 attack the airline business and tourism have witnessed the sinusoid of profit and loss, these fluctuations can be associated with various factors and cannot be attributable to terrorist attacks or threat of attacks. It is essential to understand that the industry should maintain flexible structures to manage the crisis and cooperate with media.<sup>41</sup>

## Foreign Direct Investment in the US

Foreign investments in the United States have performed quite well in the course of years. The 9/11 attack did not cause a massive escape of foreign capital from the American economy. Foreign investors justly assumed that the event was rare and also believed that the American government would take necessary steps to prevent other incidents of this type.

Foreign Direct Investment fell by 1.25% in 2002 against 2001, which is a minor figure given the incident's type and subsequently witnessed growth in 2003.<sup>42</sup>

Specialists in International Trade and Finance are of the opinion that terrorism does not play an important role in the investor's decision. For example, Daniel Wagner argues that investors are directed not by terror but by the income: "Foreign investor sentiment is not always dictated by common sense. The lure of profit and desire to establish trade partnerships is often a stronger motivational force than perceived political risk is a disincentive to invest."<sup>43</sup>

This seems to be the case in the US after 9/11. According to the annual report performed by the consulting firm A.T. Kearney, "The FDI Confidence Index," the United States is among the top 5 most attractive FDI locations (this applies to the primary sectors, especially in high technology and computer equipment firms).<sup>44</sup> In 2004 the US was the largest recipient of FDI in the world, gaining \$96 billion, a trend which seems to be changing now, as investors tend to move to the other locations (China, India, Brazil, Russia, Mexico, Hungary and Poland being of the 7 major beneficiaries of the shift in the rankings of light manufacturing).<sup>45</sup>

It is not surprising that some of the studies assessing the influence of terrorists' activities find links between terrorist events and the FDI. However, the results of the

<sup>39</sup> M.A. Curci, *op.cit.*, p. 15.

<sup>40</sup> D.K. Nanto, *op.cit.*, p. 6.

<sup>41</sup> N. O'Connor and M.R. Stafford, "A chronological review of the tourism industry's reactions to terrorist attacks, using Bali (2002), London (2005), Madrid (2004) and New York (2001) as case studies," Internet; Accessed 6 September 2008, [http://lit.academia.edu/documents/0008/5814/STAFFORD-MR-EuroCHRIE2008\\_full\\_paper\\_044\\_1\\_.docx.pdf](http://lit.academia.edu/documents/0008/5814/STAFFORD-MR-EuroCHRIE2008_full_paper_044_1_.docx.pdf).

<sup>42</sup> <http://www.bea.gov/>

<sup>43</sup> D. Wagner, "The Impact of Terrorism on Foreign Direct Investment," <http://www.irmi.com/expert/articles/2006/wagner02.aspx>.

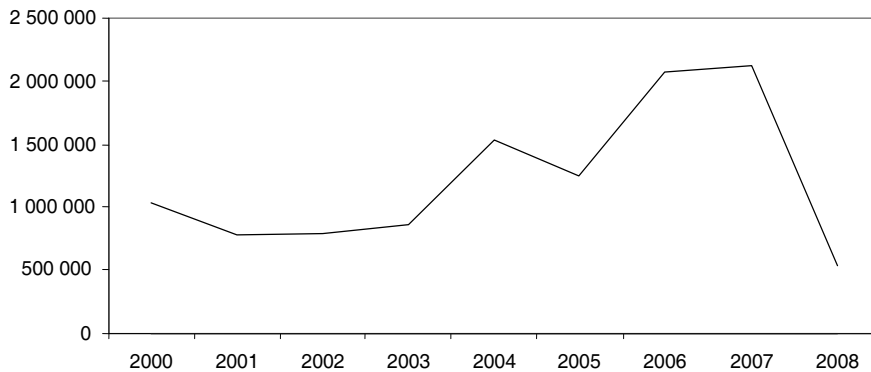
<sup>44</sup> A.T. Kearney, Annual publication, "The FDI Confidence Index," [http://www.atkearney.ro/pdf/fdici\\_2005.pdf](http://www.atkearney.ro/pdf/fdici_2005.pdf).

<sup>45</sup> *Ibidem*.

most recent studies are opposite and put more emphasis on macroeconomic factors.<sup>46</sup>

For example, the 2005 Congressional Research Service Report for Congress<sup>47</sup> does not even use terrorism as a factor of analysis. The report ascertains that “...the U.S. economy remains a prime destination for foreign direct investment ...and foreign direct investment will likely increase as new investments are attracted to the United States and existing firms are encouraged to reinvest profits in their US operations.”

Fig. 3. Foreign owned assets in the United States, excluding financial derivatives



Source: <http://www.bea.gov/international/xls/table1.xls>

## Conclusion

This paper briefly highlights the immediate costs of the 9/11 attack and refers to some areas of business that have been affected by the attack. It also shows how terrorism affected the budgetary decisions of the US government, taken to prevent terrorist attacks and fight terrorism.

As Robert Shapiro has explained, “Large economies can roll with occasional acts of destructive terror because their modern markets quickly relocate capital and jobs to wherever they can be used relatively productively. Size matters, too. Even the largest conventional terrorist strike wouldn’t capsize our \$10 trillion economy.”<sup>48</sup>

In this paper I argue that the effects of the 9/11 attack to the American economy are not massive. Demand and investment simply changed direction from some sectors to others; hence we have not noticed a change in overall figures. The American economy has shown extraordinary resilience to the attack, just as it has in past times of crisis. Nevertheless, the consequences of the effect are visible and we must not

<sup>46</sup> D. Wagner, op.cit.

<sup>47</sup> J.K. Jackson, “Foreign Direct Investment in the United States: An Economic Analysis,” <http://fpc.state.gov/documents/organization/109490.pdf>, *CRS report*, RS21857.

<sup>48</sup> R. Shapiro, “Al-Qaida and the GDP. How much would terrorism damage the U.S. economy? Less than you’d expect.” <http://www.slate.com/id/2079298//Copyright> 2008 Washington post. Newsweek Interactive Co. LLC.

forget that many factors are not easy to assess, such as symbolic losses and emotional consequences which are immeasurable. The consequences of political decisions taken to wage “war on terror” may be seen in the future, such as the debt raised by the American government to finance the Iraq and Afghanistan wars, which the USA will be paying for decades to come. As Joseph Stiglitz points out, the long-term costs of the conflict shall diminish the country’s ability to cope with urgent problems.<sup>49</sup>

Unfortunately, though the immediate and short-term costs of 9/11 attack on the US economy have been calculated,<sup>50</sup> the future costs of the “war on terror” and other steps taken to prevent terrorist attacks have not been measured. Hence, I argue that it is even more important now to find ways to identify the economic consequences of terrorism. Insight into the correlations between various fields of the economy will arm businesses and the US government with the tools that would, in the most optimal way, ensure economic growth and stability for American citizens and the USA.

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<sup>49</sup> J. Stiglitz and L. Blimes, “The Iraq War...,” Internet; Accessed 30 September 2009, [http://www.washingtonpost.com/wpdyn/content/article/2008/03/07/AR2008030702846\\_pf.html](http://www.washingtonpost.com/wpdyn/content/article/2008/03/07/AR2008030702846_pf.html).

<sup>50</sup> Bearing in mind that the 100% assessment is not possible, as the complexity of various economic occurrences is difficult to tie directly with the attack.

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